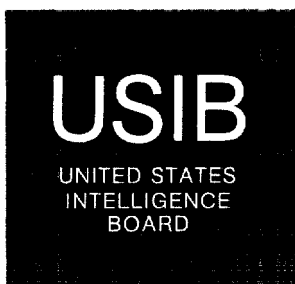


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ICELAND

Iceland goes to the polls on Sunday in an election that will determine the future of the Keflavik base. Defense policy has been the number-one campaign issue, and all five of the country's political parties have taken strong stands on the issue.

The conservative Independence Party, Iceland's largest, issued a statement on June 23 strongly endorsing retention of the base. It called for withdrawing the proposals for revising the defense agreement submitted by Prime Minister Johannesson's government last March, and for continuing the defense agreement with the US.

Voter discontent with the outgoing center-left coalition's handling of the base negotiations has improved the Independence Party's election prospects. The party has been buoyed by the success of a pro-base signature campaign conducted last February. The other opposition party, the Social Democrats, has been badly split over the defense question, but generally favors retention of the base.

Members of the outgoing coalition have been hard pressed to dissociate themselves from past government policy. The Progressive Party, the largest party in the outgoing coalition, has been struggling to regain a more moderate image. It is opposed to the presence of foreign troops in Iceland in peacetime, but endorses continued membership in NATO. The Communists call for both immediate withdrawal of all foreign forces and an end to Icelandic membership in NATO. The tiny Liberal Left Organization also opposes retention of the defense force, but it is appealing to non-Communist voters disillusioned with the traditional parties.

The municipal and local elections held on May 26 were billed as a preview of the June contest, but the results were inconclusive and merely confirmed the

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polarization of the electorate. Although the Independence Party was the big winner, with over 50 percent of the vote, it is questionable whether it will do as well in the national election. The Communists also increased their support to 17 percent. The parties of the center all lost ground. [REDACTED]

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EUROPEAN COMMUNITIES

The EC Commission has offered a compromise proposal to the US and Japan in its effort to harmonize export credit terms. The agreement would expand the OECD current-account standstill agreement by limiting the competitive use of subsidized export credits for the purpose of improving trade balances.

The EC's latest proposal for a "gentlemen's agreement"--so called because it has no mandatory compliance provision--would allow for a minimum, combined government and commercial interest rate of 7 percent, plus 1 percent for insurance and other charges. It would also limit maximum loan maturities to ten years for developing countries and eight and one-half years for all others.

The original EC proposal had called for maximum loan maturities of five years for developed Western countries, eight and one-half years for the USSR and Eastern Europe, and ten years for developing nations. By eliminating preferential treatment for Communist countries, the new plan removes an important point of contention with the US. [REDACTED]

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FRANCE

The communiqué issued after the recent visit to Paris by a Soviet Communist Party delegation supports earlier indications that the trip was prompted by the growing strains between the French and Soviet Communist parties.

The communiqué made a ritualistic bow to the pursuit of continued party cooperation, but it did not reflect agreement on such key issues as reconciliation of the French party's domestic initiatives with Soviet foreign policy and the holding of a world Communist party conference. The barely correct protocol that surrounded the visit also reflected the strains between the two parties. French party chief Georges Marchais "received" the Soviet delegation leader, Boris Ponomarev, who is a candidate Politburo member, but Marchais did not participate in the actual negotiations.

Relations between the two parties have been strained by the French Communist Party's attempts to broaden its base, put more distance between itself and Moscow, and--in the words of party leaders--become "a party like all the others." Relations became particularly strained during the recent French presidential election campaign, but Marchais nevertheless has continued his efforts to broaden the party's base.

Marchais' allies--the Socialists and left Radicals--have accepted his recent suggestion to shelve specific proposals in their "common program for governing." Marchais does not want to dissolve the three-party alliance, but the French Communists do intend to modify their interpretation of the program in order to try to draw in dissident Socialists, Radicals, centrists, and even Gaullists.

Moreover, the French party's growing interest in ending dominance by Moscow is apparent in the decision to initiate high-level contacts with Romanian party

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leaders. A Romanian diplomat in Paris told a US embassy officer that the planned exchanges reflect the two parties' common interest in resisting the Soviet push for a world Communist party conference. He said that Moscow is becoming increasingly concerned over the trend toward "Italianization" of the French party, and implied that the Romanians are not averse to encouraging the French party to move toward greater independence.

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SPAIN

Don Juan of Borbon, titular head of the royal house, stopped short of outright criticism of the Franco regime when he spoke from exile in Portugal on his name day, June 24. Despite earlier reports that Don Juan--with the support of groups opposed to Franco--would use the occasion to urge the regime to liberalize, he spoke largely of his duty to remain silent at this time of "general crisis" for Spain. In a cryptic remark, however, he declared that he is prepared to serve Spain if called to do so.

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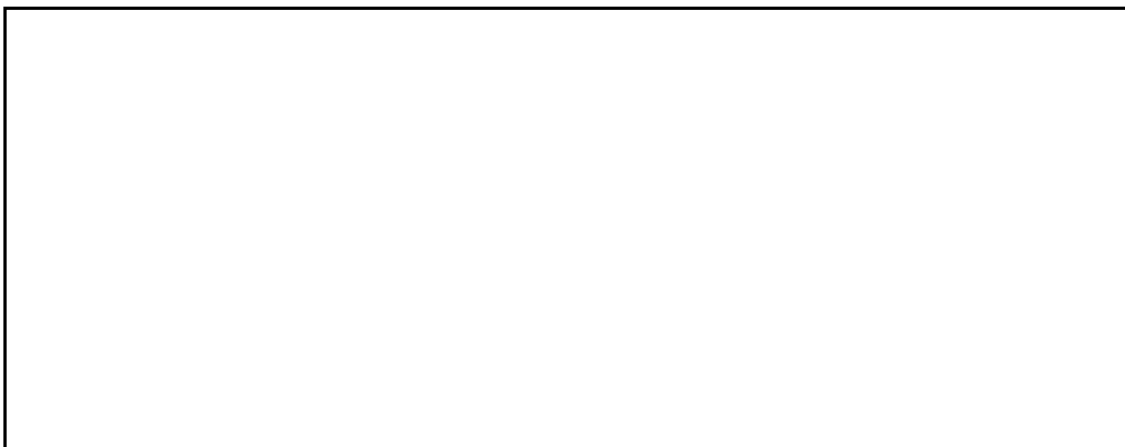
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THAILAND

The Sanya government has made some temporary gains in its drive against insurgents in an area in the north-east where the problem has been the most acute, but the effort is not likely to have any lasting impact.

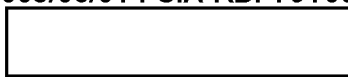


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The government will have difficulty improving the security situation in the Na Kae area. With the coming of the rainy season, the army has in the past reduced its presence in the field, permitting the insurgents to regain the upper hand in the villages. There is no indication that this pattern will change this year. Moreover, Bangkok's inattention to the security situation in the countryside, coupled with bureaucratic infighting in the capital and at local levels, has hobbled effective administration of a well-meaning civic action program.



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ARGENTINA

President Peron's campaign to eliminate terrorism has received another setback with the suspension of efforts to set up a top-level security committee.

The specific reason for the suspension has not been officially explained, but the government's repeated efforts to strengthen internal security have been stymied for several reasons, including lack of coordination between federal and provincial police and overlapping responsibilities and resultant rivalries between key officials responsible for internal security.

All of these factors undoubtedly would have hampered the effectiveness of the new security apparatus, but the major opposition to its formation seems to have come from Peron's personal secretary and confidant, Lopez

Rega/

Lacking a political base of his own, Lopez Rega would have lost strength under this latest innovation--which placed counterterrorist activities under the control of the security committee. Lopez Rega had earlier objected to the appointment of a political enemy, General Caceres, as head of a security secretariat which was to implement the policy decisions of the committee.

Lopez Rega appears to be exercising major responsibilities during Peron's illness. If it proves to be an extended one, or if it incapacitates Peron, Lopez Rega may further entrench himself as a major decision maker.

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PHILIPPINES

Islamic foreign ministers, meeting this week in Kuala Lumpur, rejected Libyan demands to adopt a hard stand against Manila's treatment of its Muslim minority.

The final conference resolution issued on June 25 criticized Philippine military action against the Muslims, but President Marcos probably believes he won a diplomatic victory because the conference side-stepped the question of who is to blame for the Muslim problem.

The Libyan delegate charged that the Philippine government is conducting a genocide campaign against Muslims and contended that the plight of Philippine Muslims should receive as much attention as that accorded the Palestinians. Libya also tried unsuccessfully to gain observer status at the conference for the radical Philippine Muslim group, the Moro National Liberation Front.

The conference resolution called for establishment of an international Islamic relief agency to work in cooperation with the Philippine government to improve the social and economic lot of Philippine Muslims. Manila has already agreed to the general concept of an international Islamic agency with headquarters in Manila, but President Marcos is less likely to act on the other major article of the resolution, which called for direct negotiations between his government and the Moro National Liberation Front.

On the whole, the Philippine government came out of the Islamic conference very well. Rebel Muslim efforts to attract attention to their cause by staging a series of headline-grabbing military actions failed to achieve the desired result. A pre-conference diplomatic and propaganda campaign by Marcos was largely successful in obtaining sympathetic treatment for Manila. Most delegations seemed inclined to accept Marcos' assertions that Manila was seeking a peaceful solution to the problem and that it sincerely wanted to improve the lot of Philippine Muslims but lacked sufficient resources.

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Indonesia and Malaysia, which championed a moderate position on the Philippine issue, successfully argued that the issue is basically a Southeast Asian problem and should be handled within the context of the Association of Southeast Asian Nations. Most conference delegates, aware of Indonesian President Suharto's recent personal attempt at mediation, undoubtedly wished to avoid anything that might undercut his efforts.

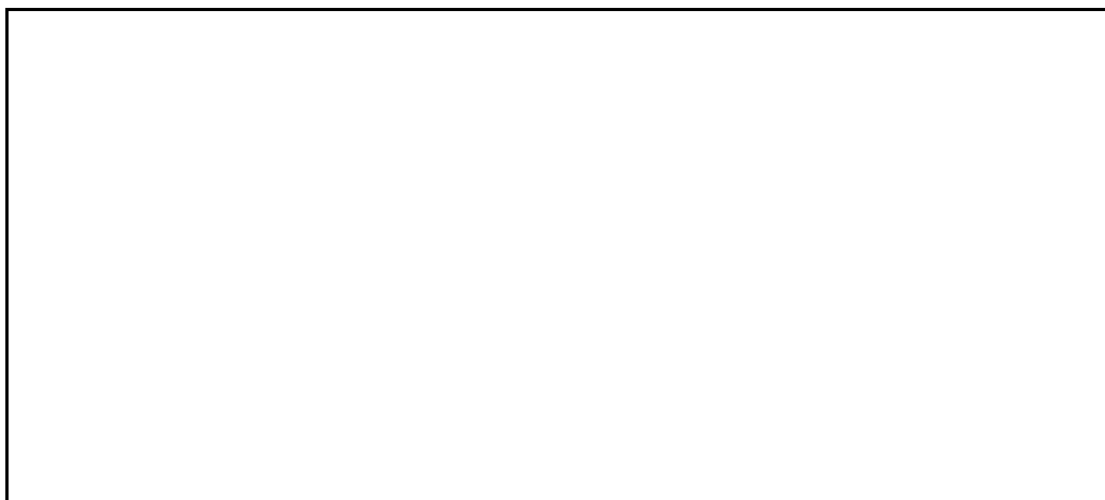
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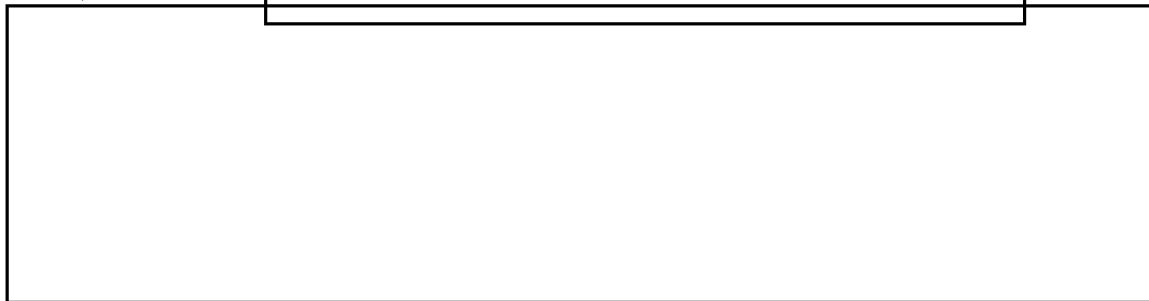
FOR THE RECORD



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Eastern Europe - Portugal: Bulgaria has announced that it will establish diplomatic relations with Portugal. The USSR, East Germany, Romania, and Yugoslavia have already recognized President Spínola's government. Poland has initiated discussions with the Portuguese, and Hungary and Czechoslovakia will probably soon do likewise.

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Philippines-Kuwait: The Philippines has become the first Asian nation to float a bond in the Middle East. The bond issue, valued at about \$17 million, is being underwritten by Kuwait and will be offered to subscribers there and abroad. The agreement with Kuwait was a double victory for President Marcos, inasmuch as it coincided with unsuccessful Libyan attempts at the Islamic conference in Kuala Lumpur to arouse Arab opposition to him for his alleged mistreatment of Muslims in the southern Philippines.

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Iran-France: Iran and France yesterday signed a \$5-billion protocol to an agreement reached last February. The protocol provides for an advance payment to France of \$1 billion on a broad range of Iranian industrial projects to be awarded to French firms, as well as increased oil deliveries by Iran.

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